

Message Text

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43

ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00 INRE-00

SP-02 AID-05 EB-07 NSC-05 CIEP-01 TRSE-00 SS-15

STR-04 OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07

NSAE-00 XMB-02 OPIC-03 LAB-04 SIL-01 L-03 H-02 PA-01

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TO SECSTATE WASHDC IMMEDIATE 4606

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY UDBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMCONSUL OPORTO

AMEMBASSY PARIS

UMISSION OECD PARIS

AMCONSUL PONTA DELGADA

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION NATO

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E.O. 11652: N/A

TAGS: EGEN, PO

SUBJ: PRIME MINISTER OUTLINES ECONOMIC SITUATION TO THE
NATION

SUMMARY: PRIME MINISTER PINHEIRO DE AZEVEDO ADDRESSED THE NATION

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OCTOBER 13 OUTLINING WORSENING ECONOMIC CRISIS. HE REITERATED

SERIOUS ECONOMIC PROBLEMS PREVIOUSLY ANNOUNCED BY HIS CABINET MEMBERS, E.G. BALANCE OF PAYMENTS DEFICIT OF 32 BILLION ESCUDOS, BUDGET DEFICIT OF 30 BILLION ESCUDOS AND RISING INFLATION RATE. HE EMPHASIZED NEED FOR DISCIPLINED AUSTERITY PROGRAM INVOLVING SACRIFICES. HE DID NOT, HOWEVER, PRESENT SPECIFIC, ORGANIZED PROGRAM TO DEAL WITH THESE PROBLEMS. END SUMMARY.

1. PRIME MINISTER PINHEIRO DE AZEVEDO DELIVERED RELATIVELY STRONG 50-MINUTE SPEECH ON NATIONAL TV OCTOBER 13 DISCUSSING SERIOUS SITUATION FACING VI PROVISIONAL GOVERNMENT. MOST OF SPEECH DEDICATED TO REITERATION OF NATION'S GROWING ECONOMIC PROBLEMS, SOME OF WHICH WERE INHERITED, SOME OF WHICH HAVE BEEN CREATED SINCE APRIL REVOLUTION. AMONG SPECIFIC PROBLEMS CITED WERE: BUDGET DEFICIT OF 30 BILLION ESCUDOS AND PUBLIC SECTOR DEFICIT OF 80 BILLION, DESPITE LOW LEVEL OF INVESTMENT, BALANCE OF PAYMENTS DEFICIT OF SOME 32 BILLION ESCUDOS AND IMMINET EXHAUSTION OF LIQUID RESERVES; HIGH LEVEL OF UNEMPLOYMENT THAT HAS REACHED 300,000 WORKERS AND IS GROWING; SEVERAL KEY INDUSTRIAL SECTORS SUFFERING SEVERE CRISES; TRANSPOT SECTOR VIRTUALLY BANKRUPT; AND APPROACHING RISE IN INFLATION RATE.

2. AZEVEDO STRESSED NEED FOR DISCIPLINED AUSTERITY PROGRAM. IF WORKERS CONTINUE THEIR UNREALISTIC DEMANDS, HE SAID, THE ECONOMY WILL COLLAPSE AND SOCIALISM WILL BECOME NOTHING MORE THAN A DREAM. LAW MUST BE OBEYED, I.E. ILLEGAL OCCUPATIONS OF FARMS AND URBAN RESIDENCES MUST CEASE. THIS GOVERNMENT IS ANXIOUS TO RESOLVE ACKNOWLEDGED INJUSTICES, BUT ACTIONS SUCH AS ILLEGAL OCCUPATIONS IMPEDE RATHER THAN PROMOTE SOLUTIONS. HE EMPHASIZED THAT REVOLUTIONS ARE NEVER SUCCESSFUL OVER THE SHORT TERM. ALL MUST BEAR SACRIFICES IN ORDER THAT REVOLUTION SUCCEED IN COMING GENERATIONS. THOSE WHO DO NOT WORK, HE ASSERTED, WILL BE CONSIDERED COUNTER-REVOLUTIONARIES.

3. PRIME MINISTER PROPOSED NO SPECIFIC, CONCRETE PROGRAM TO RESOLVE THE MOUNTING PROBLEMS. HIS ONLY POSITIVE STATEMENTS WERE REFERENCES TO INVESTMENT PROJECTS PREVIOUSLY ANNOUNCED, E.G., SINES PROJECT, STEEL EXPANSION, CONSUMER DURABLE INDUSTRIES, AND PYRITE DEVELOPMENTS. HE DID, HOWEVER, MENTION NEED TO STOP ARTIFICIAL PRICING FOR CONSUMER GOODS, REDUCE DEFICIT OF SOME 1200 NATIONALIZED COMPANIES, AND RAISE INDIRECT TAXES.

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4. COMMENT: MUCH OF WHAT PRIME MINISTER AZEVEDO SAID CAN BE FOUND IN ADDRESSES DELIVERED BY FORMER PRIME MINISTER VASCO GONCALVES. DIFFERENCE RESTS BASICALLY IN EXPECTATION THAT CURRENT GOVERNMENT DOES INDEED INTEND TO PREPARE AND INTRODUCE AUSTERITY PROGRAM. SURPRISING FACTOR WAS PRIME MINISTER'S FAILURE TO MAKE EVEN PASSING MENTION OF EMERGENCY PROGRAM HIS CABINET IS DRAFTING AND EXPECTS TO ANNOUNCE LATER THIS MONTH.

OTHER, PERHAPS MINOR, DIFFERENCES INCLUDE DEEMPHASIS ON EXTERNAL CAUSES OF NATION'S PROBLEMS AND SHARPER TONES USED TO CRITICIZE ANTI-GOVERNMENT FORCES. HE DID, HOWEVER, TAKE BOTH SIDES OF SUCH ISSUES AS AGRARIAN REFORM, WORKER PRODUCTIVITY, WAGE INCREASES, AND PRIVATE PROPERTY. HIS ATTITUDE, IN EFFECT, REFLECTS TO A LARGE DEGREE GOVERNMENT'S WEAK POSITION AND REALIZATION THAT IMPLEMENTATION OF A SEVERE AUSTERITY PROGRAM WILL BE DIFFICULT. IT SHOULD BE NOTED, HOWEVER, THAT AZEVEDO'S SPEECH IS THE FIRST TIME THAT THE GOVERNMENT HAS PUBLICLY ACKNOWLEDGED THE NEED TO BORROW AGAINST ITS GOLD HOLDINGS, THAT INFLATION RATES MAY TEND SHARPLY UPWARDS IN COMING MONTHS, AND THAT INDIRECT TAXES MUST BE INCREASED TO AFFECT ALL STRATA OF THE POPULATION.

3. ALL IN ALL GIVEN THE CURRENT POLITICAL CRISIS IT WAS A COURAGEOUS PERFORMANCE, FREE OF DEMAGOGUERY, BUSINESSLIKE AND BLUNT.
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